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UNITED STATES DEPARTMENT OF AGRICULTURE  
AGRICULTURAL ADJUSTMENT ADMINISTRATION

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# America Must Choose its Course in Foreign Trade

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**Highlights:** Agricultural America grew up by trading its raw materials for Europe's finished goods. American farmers long have produced not merely for their own neighborhood but for the Nation and the world.

There were several reasons for the loss of foreign markets for farm products from the United States after the World War—the change from debtor to creditor nation, the curbing of foreign imports by high tariffs in the United States, the efforts of European countries to produce food within their own borders, and new competition caused by increased production abroad.

The United States cannot use all of the output of its farms and factories at home because its national ability to produce, both agricultural and industrial, was developed to supply wants greater than its own for some products and less than its own for others.

At least three possible choices are open to the United States—extreme nationalism, extreme internationalism, and some planned middle course. The first would mean that the United States would have to live within its borders, consuming only its own products and selling none abroad. The second would mean throwing the doors completely open to unrestricted foreign trade, both export and import. A planned middle course would be somewhere between.

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## I. How America's Farm Export Trade Has Developed

**A**GRICULTURAL AMERICA grew up by trading its raw materials for Europe's finished goods. American farmers produced not merely for their own neighborhood but for the nation, and for the world.

As producers for the world market, which once meant chiefly the European market, American farmers had special advantages. They had access to new lands just opened up. American farm lands were adapted to use of machinery and large-scale production methods. This meant that the American farmer had lower production costs than the European farmer. American farm products, therefore, because of their price, and because of the demand for them across the Atlantic, found a ready market in Europe.

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*Prepared in the Division of Information.*

## How American Debts Promoted Farm Exports

The United States was a growing, debtor nation before the World War. In order to develop its resources quickly, it had borrowed heavily from Europe.

*As a debtor nation, the United States* paid its debts largely with raw materials which *Europe, as a creditor*, accepted in return for the money lent to this country.

The increased needs of European countries arising out of the war greatly stimulated American trade with Europe. The United States sold cereals, tobacco, cotton for uniforms and for explosives, ships, locomotives, tractors, and munitions of war. In response to the flush demand for cereals, the American farmer plowed up 40 million acres of grasslands.

## Farmers Produced Beyond American Needs

For a time, European countries paid for continuing imports. At first they paid by cancelling debts that America owed. Later on, they borrowed money in this country. In less than 5 years, American war sales not only wiped out America's huge commercial debt, but left Europe owing the United States sums that were far greater than this country's debts to Europe ever had been.

Before the war, America exported one-fifth of its wheat, two-thirds of its cotton, two-fifths of its tobacco, one-eighth of its hog products, and not quite one-fiftieth of its corn. During the war, the acreage harvested was sharply increased, with like increases in most exports. For a time after the war, these exports were kept up, but toward the end of the 1920's they fell off. In the 1930-33 period most of them declined disastrously. In those years, though production had fallen but little from its pre-war figure, America exported one-ninth of its wheat, three-fifths of its cotton, one-third of its tobacco, one-sixteenth of its hog products, and only one five-hundredths of its corn.

THE RECORD OF AMERICA'S CHIEF AGRICULTURAL EXPORTS, 1910-33

Year (average)	Wheat	Cotton	Tobacco	Corn	Hogs and lard
	<i>1,000 bushels</i>	<i>1,000 bales</i>	<i>1,000 pounds</i>	<i>1,000 bushels</i>	<i>1,000 pounds</i>
1910 to 1914.....	156, 409	9, 360	390, 413	43, 917	941, 400
1915 to 1919.....	218, 839	5, 704	454, 278	39, 094	1, 832, 200
1920 to 1924.....	259, 492	6, 277	490, 522	75, 984	1, 703, 200
1925 to 1929.....	170, 077	8, 575	541, 949	23, 233	1, 136, 856
1930 to 1933.....	86, 371	8, 243	473, 999	5, 256	810, 500
1933.....	57, 002	9, 047	472, 632	4, 965	724, 000

## II. Decline in Foreign Trade, and its Causes

At the close of the war, when this country became a creditor nation, it had to choose between two courses. It could let in the

goods necessary to pay the interest on and gradually reduce the principal of debts owed to this country. That meant dropping the tariff. Or it could lend money to increase foreign debts still further, and leave the problem of collections to the future. America made the loans.

Instead of sending surplus goods abroad to pay its debts, as it had always done when it was a growing, debtor nation, the United States was in a position to receive the surpluses of other nations' goods in payment of their debts. This country insisted that European debtor nations pay but at the same time increased its tariffs. Tariff and debts combined made it difficult for Europe to buy from the United States at all. After the war, European purchases of American produce were made possible by a series of American loans to Europe. When in 1928 these American loans to Europe ceased, European purchases in this country largely ceased.

### **Effect of Tariffs on America's Foreign Trade**

Tariff and quota barriers, along with other trade restrictions, were pushed up by France, Italy, and Germany. "Imperial Preference" was adopted by the British Empire. From 1922 to 1926 the United States exported annually nearly 2 billion dollars' worth of farm goods. In 1933 the total value of its exports of farm products was but a third of what it had been in the 1922-26 period.

In such world markets as remained, the American farmer was meeting competition from producers whose costs stood in the same relation to his as his had stood to those of European farmers two generations before. Unfortunately this came at the very time that American farms had become burdened with high mortgages. The average mortgage debt per acre in 1920 was nearly  $2\frac{1}{2}$  times what it had been in 1910.

### **Did America Reduce Crop Acreage After the War?**

Partly to meet the deficit in European acreage resulting from the war, the area in 13 crops in the United States was increased by 31 million acres. Since 1920 there has been little change in acreage in the United States. Europe's acreage has been restored since 1920 and in 1932 was one-tenth more than the pre-war acreage. Acreage in Canada, Argentina, and Australia in 1932 was 15 million greater than in 1920 and 41 million greater than in 1909-13.

Since 1918, crop output outside the United States has risen to about 40 percent above the pre-war level, and in line with the trend of former periods. This increased foreign competition reduced the volume of farm exports from the United States, particularly in wheat and tobacco.



The products which could best be stored, like cotton and wheat, were put in warehouses.

The world carry-over of American cotton in 1932 was 13 million bales, as much as a whole year's average crop for this country. This was about two and a half times the normal carry-over.

The wheat carry-over in 1933 was more than 390 million bushels, as much as half a year's average crop, and about three times the normal carry-over.

### What Happened to Products Which Could Not Be Stored?

The products which could not be stored, like hogs, were marketed at ruinous prices. Hog prices, farm value per head on January 1, averaged \$14.42 for the years 1925-29. In 1933 the price was \$4.21.

HOW MUCH DID UNITED STATES EXPORT, 1910-33?

Year <sup>1</sup>	Gross income from farm production	Approximate farm value of exports	Ratio of exports to produc- tion
			<i>Percent</i>
1910.....	\$6,238,000,000	\$652,000,000	10.5
1915.....	7,595,000,000	1,129,000,000	15.3
1920.....	13,566,000,000	1,960,000,000	14.4
1925.....	11,968,000,000	1,462,000,000	12.2
1930.....	9,454,000,000	756,000,000	8.0
1931.....	6,968,000,000	489,000,000	7.0
1932.....	5,331,000,000	441,000,000	8.5
1933 <sup>2</sup> .....	6,256,000,000	617,000,000	9.9

<sup>1</sup> Crop year for crops; calendar year for livestock and livestock products.

<sup>2</sup> Preliminary. Estimate for 1933 includes \$271,000,000 income from rental and benefit payments.

Compiled in Division of Statistical and Historical Research, Bureau of Agricultural Economics, from reports of the Bureau of Foreign and Domestic Commerce and records of the Division of Crop and Livestock Estimates.

### III. What "Living at Home" Would Mean

A system of "Living at Home" might have advantages once it were going, but heavy cost would be required to make the basic changes. Building up a new farm plant to supply needs that America now satisfies from foreign sources would take time. Arranging for domestic consumption of American products now sold abroad also would take time, and in some cases it would be impossible to consume all of them. New food habits would have to be cultivated because of loss of imports of coffee, bananas, and other fruits, and industry would suffer from loss of rubber and other essential imports.

#### How Would Complete Nationalism Affect Economic Life?

One example will illustrate how complete nationalism would affect an important American industry. Wheat farmers who used to sell about a quarter of their crop abroad but whose exports have grad-

ually dwindled to around 5 percent would not be able to buy their usual numbers of combines, threshing machines, tractors, and other machinery. By reason of this decreased output the farm-implement industry would not need as much raw material from farmers and the employees thus thrown out of work would not be able to buy as much farm produce as they did before. This would further cut the farmers' home market. (Under a system of complete "Living at Home", the farm-implement makers would be doubly hit, for they would lose both their large foreign market—they sold over \$140,000,000 worth of goods abroad in 1929—and that part of their home market which depends on the farmers' receipts from exports.)

### **How Would Complete Nationalism Affect Farming?**

The agricultural adjustment programs of 1933-34 cut out the production of surplus crops on some 36 million acres as an emergency measure, yet in 1934 the country still exported \$696,000,000 worth of its principal farm products. Should the market situation grow worse, or should the nation decide on "living at home", a lasting and still broader policy of withdrawal for those crops would be necessary.

Take some concrete examples. In 1933, the United States exported 9,047,000 bales of cotton. This represented the produce of about 27 million acres. The year's wheat exports represented the produce of some 3 million acres; the corn exports, some 200 to 250 thousand acres; the tobacco exports, some 600 thousand acres. Had the country been on a "Living at Home" basis those acres, as well as the 36 million, would have had to be kept out of cultivation or disastrous breaks in domestic prices would have occurred.

## **IV. Can the United States Regain Its Foreign Trade?**

If Americans want to dispose of their goods abroad, they can sell them—that is to say—they can trade their goods for other peoples' goods, or they can give them away, either directly or by giving other people the purchasing power to buy them.

But they cannot lend other people the funds to buy their own goods, expect them to repay the loans, and then refuse to let them send their goods in payment for their debts and America's exports.

This country would have to increase its imports over the present volume of exports about half a billion dollars annually, if foreign nations were to earn the purchasing power necessary to pay their debts and to make current purchases of American goods.

### **If Tariffs are Lowered Will Wage Earners Suffer?**

It is estimated that not more than 1 American wage earner in 6 is competing directly with a foreign wage earner. In making tariff

adjustments the problem of what is to become of the workers whose employment depends to some extent on tariff protection must be considered carefully.

In 1920 domestic wheat exports from this country reached a high mark of about 370 million bushels. During the 10 years from 1919 to 1929, American domestic exports averaged about 221 million bushels. Wheat exports under the world wheat agreement for 1933-34 were 261½ million bushels.

In the last 10 years, particularly between 1928 and 1931, Germany, France, Italy, and Great Britain, all among this country's former best customers, raised their duties on the importation of wheat.

The tariff protection given foreign growers has led, in a number of cases, to increased production, to such an extent that their market is supplied from that source. Where such nations still need to import wheat, American wheat is at a disadvantage because of the new wheat areas on low-cost land in other parts of the world.

The United States has normally been the largest exporter of lard to Germany, selling 126 million pounds of lard to Germany in 1933. On March 1, 1934, Germany limited monthly lard imports to two-fifths of the average for the corresponding months of the years 1931 to 1933. This limited American imports to Germany for 1934 to a possible maximum of 65 million pounds. Germany also raised the import duty.

### **Great Britain's Plan of "Imperial Preference"**

Great Britain adopted a plan of "Imperial Preference", with all parts of the British Empire pledged to buy as much as possible from British possessions. Most of the non-Empire pork exporting countries have been brought under this system of import quotas. During the first quota year, the quantities shipped from the United States, although the situation was better than during the 1931-32 period of unregulated competition, represented a big cut from the exports of the 1920's.

As a result of "Imperial Preference" and quotas American exports of bacon to Great Britain declined from an average of 81,445,000 pounds in the period 1924-25 to 1928-29 to 3,902,000 pounds in 1932-33, while ham exports, in the same periods, declined from 152,131,000 pounds to 61,647,000 pounds.

### **Why It Will Be Difficult to Increase Exports**

1. Making of trade agreements with other countries is bound from their very nature to be a slow process.

2. A large part of American sales during the 1920's was the result of unwise American lending rather than sound purchasing power



among America's customers. In order to restore this volume of sales, on a sound basis, purchasing power abroad would have to be built up by letting in an increased volume of imports in this country.

3. Increased production in many parts of the world has both increased competition for world markets and cut the available markets for United States exports by supplying their needs from local sources. This is true of farm as well as industrial products.

## V. What Course Shall The United States Choose?

Henry A. Wallace, Secretary of Agriculture, has outlined three possible choices for the United States. He calls these nationalism, internationalism, and a planned middle course.

Nationalism would mean "Living at Home", internationalism would mean reducing tariffs in an effort to win back lost foreign trade, and a planned middle course would be somewhere between the other two.

Secretary Wallace says that nationalism "would lead the United States toward ultimate self-containment, but it would do so at a cost heavy in terms of economic sacrifices and perhaps extreme regimentation; a cost which, in agriculture alone, would mean the abandonment of about 40 million acres of good crop land."

### Planned Middle Course is Possible

On the other hand, he points out that internationalism "might not involve any acreage reduction, but would obligate the United States to import annually at least 500 million dollars more of goods than is now imported. This is the only way foreign countries can pay interest on their debts to the United States and at the same time make current purchases of goods and services on a predepression scale."

Between these extremes, Secretary Wallace describes a "planned middle course", as follows:

"The planned middle course I propose as a basis for present discussion is one precisely half-way between these two extremes; a line of march along which we would lower tariffs enough to bring in another 200 million dollars' worth of goods annually, and permanently retract of our good farm land some 25 million acres".

### Decision Rests With the People

The American people are faced with the problem of choosing self-containment, full participation in world trade, or some middle course.

Secretary Wallace says, "It is no open and shut question. It needs study, and dispassionate discussion. I want to see the whole

question examined by our people in a new spirit. I am convinced that the time has come for the great body of Americans to formulate a long-time trading program for this country which they are willing to stand behind ”.

#### SUGGESTED REFERENCES

The following publications may be secured, without charge, from the sources below as long as supplies are available:

- “Agriculture and Foreign Trade”, G-16; Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C.
- “Achieving a Balanced Agriculture”, G-20; Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C.
- “A Charted Course Toward Stable Prosperity”, G-23; Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C.
- “Reopening Foreign Markets for Farm Products”, G-27; Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C.
- “Wheat Adjustment: A Handbook for Use in the Wheat Adjustment Program”; Correspondence, Records, and Printing Section, Division of Information, Agricultural Adjustment Administration, Washington, D. C.
- “Economic Bases for the Agricultural Adjustment Act”, Office of Information, United States Department of Agriculture, Washington, D. C.